



STAFF REPORT

Meeting Date: October 14, 2014

Agenda Item #

Agency: City of Belmont

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Agenda Title: Report from Audit Committee Regarding Annual Financial Report for Fiscal Year Ending June 30, 2014

Agenda Action: Receive Report

Recommendation

The Audit Committee recommends the City Council receive the financial reports and recommendations of the auditor. This will make these reports public for the year ended June 30, 2014. These reports include:

- Comprehensive Annual Financial Report (CAFR)
- Measure A Special Revenue Fund Report
- Agreed Upon Procedures Report on Compliance with Proposition 111 (City)
- Agreed Upon Procedures Report on Compliance with Proposition 111 (BFPD)
- Memorandum on Internal Control and Required Communications

The Audit Committee further recommends adoption of the updates to the financials policies.

Background

The Audit Committee is a practical means for Council to provide independent review and oversight of the City of Belmont's financial reporting processes, internal controls, and independent auditors. The Audit Committee also provides a forum separate from management in which auditors and other interested parties may candidly discuss concerns. By effectively carrying out its functions and responsibilities, the Audit Committee helps to ensure that staff properly develops and adheres to a sound system of internal controls, that procedures are in place to objectively assess management's practices, and that the independent auditors, through their own review, objectively assess the City's financial reporting practices.

Analysis

The CAFR is a complex document containing a tremendous amount of information. From an oversight standpoint, the Audit Committee has been able to provide an independent review of the City's financial reporting processes and internal controls, and finds that the City is in good financial health and is maintaining control over budgeted activities. The City's General Fund ends with a \$8.2 million fund balance, of which \$6.3 million is unassigned and available for expenditure. A Message from the Finance Director has been prepared that further highlights the City's financial performance (Attachment B).

The CAFR is prepared by staff and has been subject to a state-required audit by an independent, certified and licensed auditor. As discussed above, the auditor has reported directly to the Audit Committee. On October 6th, the Audit Committee received the auditor's opinion, management letter and annual financial reports prepared by staff. Understanding the Audit Committee's personal responsibility as members and the duty to exercise an appropriate degree of professional skepticism, the Audit Committee met with the

auditor and discussed the financial results, along with City management. The Audit Committee satisfied itself that the reports and related information were fairly presented, to the extent such a determination can be made solely on the basis of such conversations. The Audit Committee also determined the reports were comprehensive and adequately disclosed the financial position and results of operations for the City.

In addition, the Audit Committee formally received the reports and recommendations of the City's independent auditor, which are embodied in the Memorandum on Internal Control. The City's management has prepared a formal response to those recommendations. While the Audit Committee had the opportunity to discuss the audit and recommendations with the independent auditors in private, as well as privately amongst its members, it did not believe such action was necessary.

As prescribed by policy, the Audit Committee directed the Chair to transmit this report to the City Council. By doing so, the Committee is recommending that the financial reports and recommendations of the auditor be made public. Furthermore, in performing this function, the Audit Committee has discharged its duties and met its responsibilities.

As for discharging its other responsibilities, the Audit Committee makes the following comments:

1. The Audit Committee has reviewed its provision of funding. No changes are proposed.
2. The Audit Committee has considered and determined there is no need to retain a financial expert to assist in fulfilling its responsibilities.
3. The Audit Committee has reviewed updates to the best practices, which have been added to the City's financial policies.

With respect to the reports, the Audit Committee would like to draw attention to the following:

- The Independent Auditors have issued an unqualified opinion, which is the highest level of assurance possible; however, they have added "Emphasis of Matters" paragraph for one item:
 1. Related to the California State Controller's Office review of activities of the former redevelopment agency to determine whether an asset transfer between the redevelopment agency and public agency occurred on or after January 1, 2011. If an asset transfer did occur and the public agency that received the asset is not contractually committed to a third party for the expenditure or encumbrance of the asset, legislation purports to require the State Controller to order the asset returned to the successor agency. The State Controller's Office has not completed its asset transfer review and the effect of that review cannot be determined as of June 30, 2014.
- The Independent Auditors have also issued a Memorandum on Internal Control, which communicates to management, City Council, and others, control deficiencies with the design or operation of the City's internal controls over financial reporting. This Memorandum disclosed no material weaknesses or significant deficiencies.

The Audit Committee wishes to express its appreciation to the City's management, and in particular, the Finance Department staff, for the information they have provided for the Committee to compile this report.

Lastly, the Audit Committee members stand ready to answer any questions with regards to this report.

Alternatives

1. Take no action.
2. Refer to staff with direction.

Attachments (previously distributed)

- A. CAFR
- B. Message from the Finance Director
- C. Memorandum on Internal Control and Required Communications
- D. Financial Policy Updates

On file and available in the Finance Department:

1. Measure A Report on Compliance
2. Agreed Upon Procedures Report on Compliance with Proposition 111 (City)
3. Agreed Upon Procedures Report on Compliance with Proposition 111 (BFPD)

Fiscal Impact

- ☒ No Impact/Not Applicable
☐ Funding Source Confirmed:

Source:

- ☐ Council
☐ Staff
☐ Citizen Initiated
☒ Other*

Purpose:

- ☒ Statutory/Contractual Requirement
☐ Council Vision/Priority
☐ Discretionary Action
☐ Plan Implementation*

Public Outreach:

- ☒ Posting of Agenda
☐ Other*

*Audit Committee